

*Student  
Financial  
Assistance*



## Financial Partners Channel

*Financial Partners Transformation - Analysis & Design Phase*

*Executive Summary*



## **Statement of Purpose**

This executive summary document was prepared by the SFA Modernization Partner team and represents the Project Management Final Plan deliverable described in Task Order #10 (10.1.5.c).

The document provides an overview of key Modernization projects in supporting the Financial Partners' Transformation. Specifically, it focuses on the work completed during the Analysis and Design phase in the areas of Employee Development, Business Process Reengineering, Risk Modeling, Default Reduction and FP Enabling Technologies.

Overall, the document is intended to provide an executive level summary for the deliverables completed during the Analysis and Design phase. The document also highlights key next steps required to begin the next phase of the FP Transformation effort.



## Overview

### Organization and Human Performance

- Visioning
- Employee Development

### Business Processes and Functions

- Risk Model
- Default Reduction Management Report
- Process Reengineering - Business Case

### Enabling Technology

- Data Warehouse
- Document Management
- Middleware

### Summary Next Steps



## Overview - Transformation Objectives and Timeframe

**The over-arching objective of the Financial Partners' Transformation effort is to identify and implement ways to better serve our partners which include lenders, guaranty agencies, servicers, and secondary markets.**

- **Specific Goals:**

- Achieve partner satisfaction by listening to and responding to our partners' needs.
- Lower unit cost by simplifying core processes and reducing processing time for key functions.
- Foster an environment for a better informed, proactive, and empowered staff who can anticipate and meet the needs of our partners.

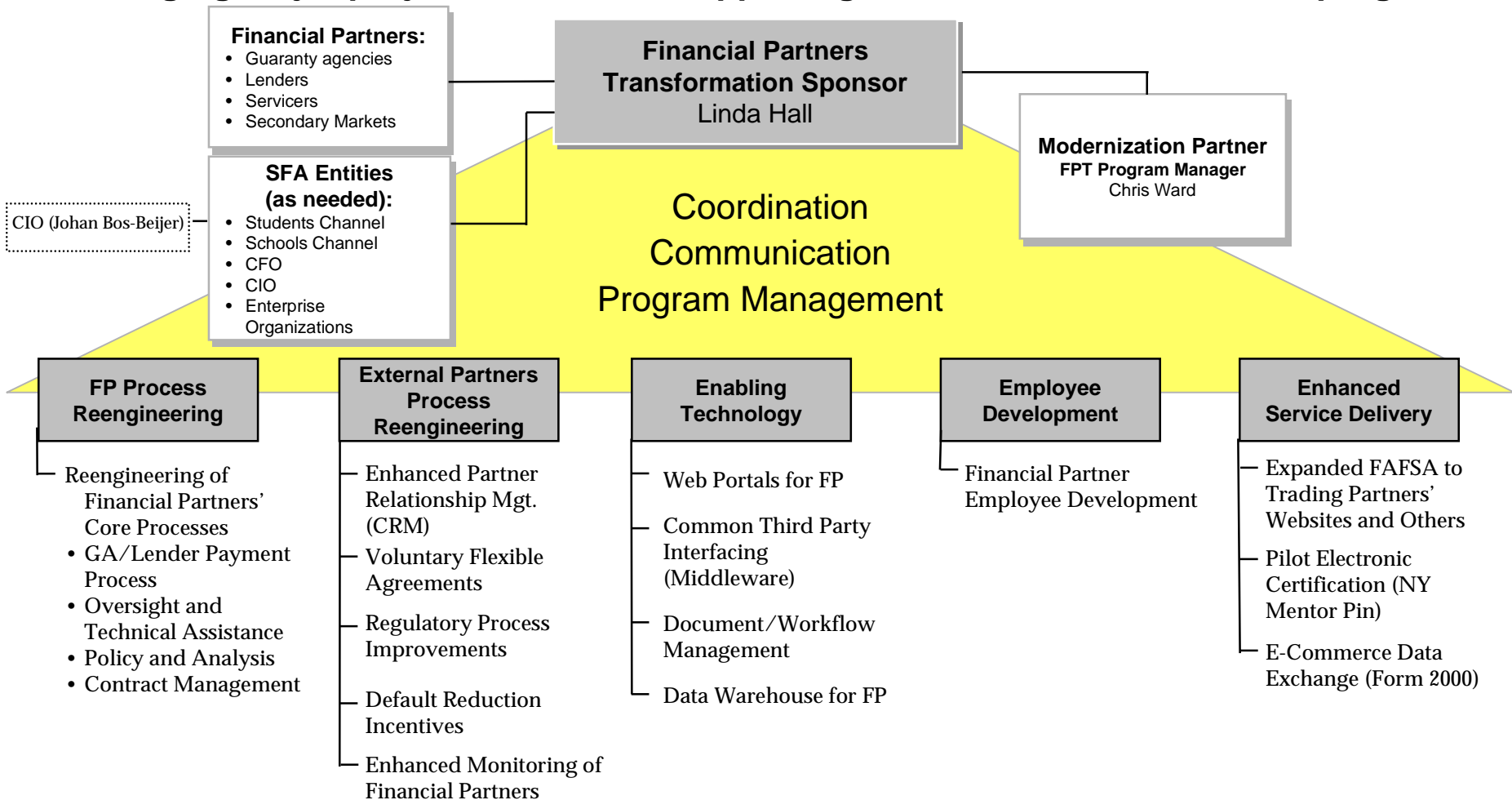
- **Timeframe:**

- “Analysis and Design” is the first phase of the Financial Partners Transformation project. This phase will be completed by September 2000.



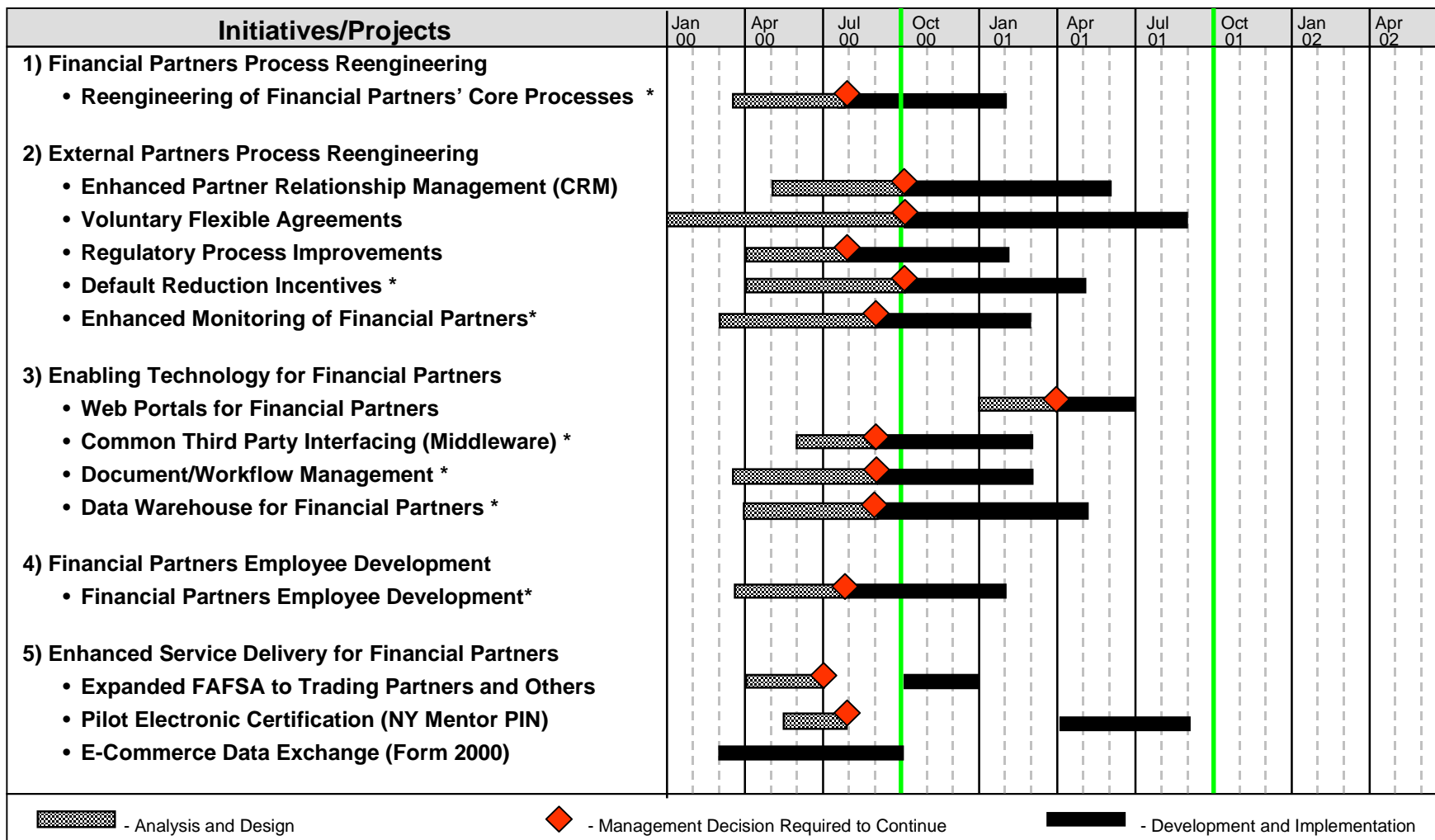
# Overview - Transformation Program

The Modernization Partner assisted the Financial Partners Channel in designing and managing major projects, as well as supporting the overall Transformation program.





# Overview - Transformation Program Schedule



\* Projects which Modernization Partner is currently involved



## Overview - Modernization Partner Involvement

**In order to achieve the overall Transformation objectives, the Modernization Partner was contracted to complete several deliverables as part of Task Order #10 which began in April 2000.**

- **Current Environment Assessment** - This deliverable documents key functions, process flows, interfaces, data volume, and costs for each of the four core Financial Partners Channel business processes. The deliverable also includes an assessment of the current environment as compared to “best-in-business” processes and practices.
- **Reengineering Options and Analysis** - This deliverable presents a list of recommended options for improving each of the four core Financial Partners business processes including cost, benefit and risk analysis for each recommended option.
- **Process Reengineering Business Case** - This deliverable provides a business case for each selected reengineering option focusing on GA/Lender Payment and Oversight and Technical Assistance.
- **Employee Development** - This deliverable outlines the organizational and human performance characteristics that are critical for the success of the Financial Partners Channel. It includes an organizational assessment, communications plan, and skills development plan.
- **Project Management Plan** - This document summarizes the project management approach and tools used during the course of the FP Channel Transformation. The plan is prepared in three parts - initial, interim and final plan, with the final plan representing the executive summary of the FP Transformation deliverables package.



## Overview - Modernization Partner Involvement

**In addition, Task Order #23 was intended to provide additional functional and technical expertise to the FP Channel during the Analysis and Design phase. This work began in June 2000 and focused on the following:**

- **Default Reduction Management Report** - This management report presents recommendations and incentives for preventing and reducing student loan default. The areas studied include lenders, guaranty agencies and schools, as well as debt collection .
- **Risk Modeling Conceptual Design** - This deliverable outlines a conceptual design for the risk modeling function, drawing from best practices on risk modeling in the financial services community.
- **Technical Requirements Summary and Matrix** - This deliverable contains technical designs for the three platforms within Financial Partners. The three platforms include Data Warehouse, Middleware, and Imaging technologies.
- **FP Modernization Services Summaries** - These two documents provide an executive level status of the FP Modernization program associated with Task Order #23. Specifically, they summarize the planned and completed key activities, as well as the results and outcomes. This document presents program updates through an initial summary and a final summary report.





## Overview - Business Focus For the FP Transformation

**Although several deliverables were required in supporting the FP Transformation during the Analysis and Design Phase, the work completed can be represented in three major areas of focus.**

- **Organization and Human Performance:** Prepared by the Employee Development team, the Employee Development Plan presents outcomes from key employee development activities which include an Organizational Assessment, Change Agent network, and Communications plan. An add-on document, the Organizational Visioning summarizes the output from the Visioning sessions, including the development of a FPC value proposition.
- **Business Processes and Functions:** Prepared by the Core Process Reengineering team and the Functional Support team, these deliverables focus on the development of business case, risk modeling conceptual design and default reduction management report.
- **Enabling Technology:** Prepared by the Supporting Technologies team, the deliverables present the results of the analysis and design activities in Data Warehouse, Document Management, and Common Third Party Interfacing (Middleware).



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# Organization and Human Performance

## Vision and Mission - Strategic Intent

**Organizations select one of the value propositions below as their primary area of focus. Partner Understanding was chosen as the strategic intent for the FP Channel. The leadership team also stressed the need for Operational Excellence in the FP Channel.**

### Operational Excellence

- Value discipline = best total cost
- Operational goals = minimize costs, standardize, simplify, centralize, reliability
- Products = limited product variety and customer segmentation
- Culture = zero defects, efficiency
- Structure implications = team focus, end-to-end focus, strong audit function, unit focussing on standards
- People = tight management; people are dependable, trainable & team players
- Measures = process metrics



### Strategic Intent

### Partner Understanding

- Value discipline = best solution
- Service goals = customer relationships, partnering, experts at customer's business
- Culture = client oriented, service culture
- Structure implications = account team focus, decentralized
- People = responsive, consultative, effective communicators
- Measures = profitability, customer satisfaction

### Product Leadership

- Value discipline = best product
- Innovation goals = product leadership, cultivate market demand
- Culture = invention and development, entrepreneurial, high performance teams
- Structure implications = Fluid organization, team focus
- People = creative, proactive, eccentric
- Measures = product introductions, time to market metrics



# Organization and Human Performance

## Vision and Mission - Statements

**The FP Leadership Team worked to crystallize their strategic thinking into these distinct statements. These statements are in DRAFT form, since they have not been shared with the rest of the organization for review.**

In order for a Vision to be accepted and embraced by the organization, its employees must be engaged in the process of developing it. Visioning activities were halted within Financial Partners for Union approval. The next step in Visioning will be to conduct focus groups to gather employee feedback, insight, and suggestions on the Vision and Mission.

### Financial Partners Mission

Our Mission is to help put America through school by leveraging the power of the financial markets through public/private partnerships to ensure access, maintain integrity, and promote best-in-business practices.

### Financial Partners Vision

We seek to develop strategic alliances by listening to and understanding our partners and simplifying processes. We will be known for fairness, knowledge, effectiveness, and integrity and driven by the success of our partners.



## Organization and Human Performance Employee Development Plan - Overview

**The Employee Development Plan focuses on assessing the current state of Financial Partners, implementing some immediate programs, and identifying areas for future improvements. Below are descriptions of the key sections of the Plan:**

- **Organizational Assessment:** This assessment was issued to all employees within the FP Channel in an attempt to involve employees in identifying improvement opportunities. Employees responded anonymously to questions regarding Motivation, Communication, Customer Service, Teamwork and Empowerment, Performance Rewards and Training, and Leadership.
- **Change Agent Program:** The Change Agent network involved key stakeholders in the Transformation. The Change Agents communicated consistent messages to their staffs about the transformation, visioning efforts, and the organizational assessment. During this phase, Change Agents consisted of senior management from HQ and the regions. In the future, this group will be expanded.
- **Communications:** These efforts involved identifying the appropriate communications to send to internal and external audiences. Mechanisms were established to communicate to these groups.

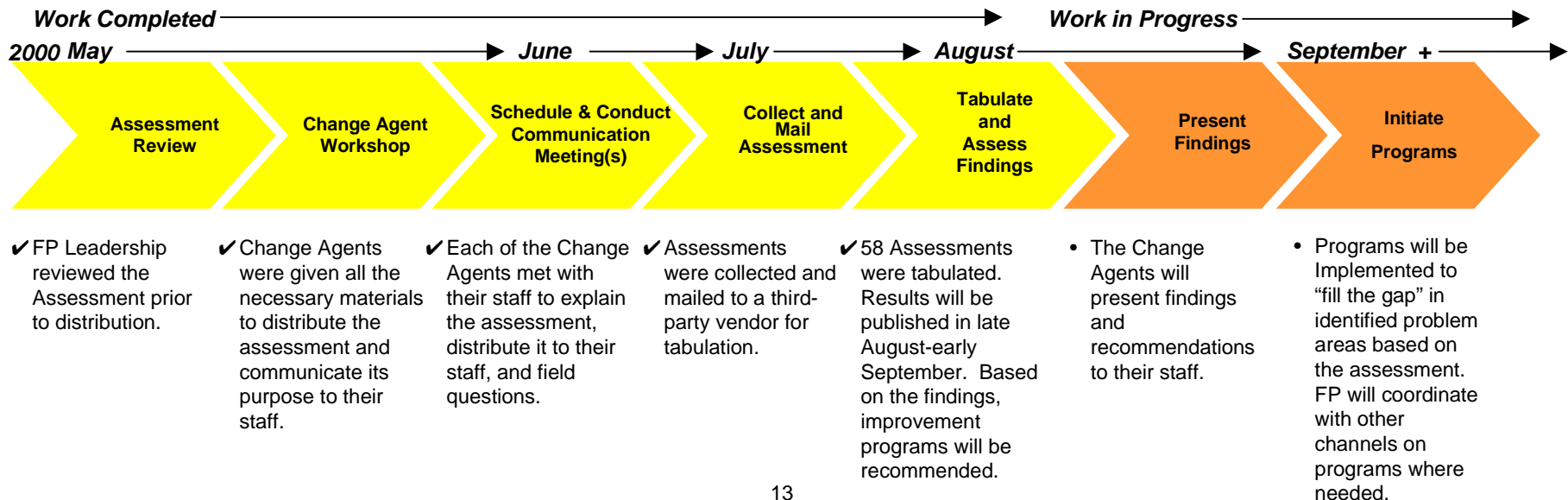


# Organization and Human Performance

## Employee Development Plan - Organizational Assessment

**The purpose of the Organizational Assessment was to involve employees in diagnosing areas for improvement within the FP Channel throughout the process.**

- 58 Organizational Assessments were completed and tabulated - 70% response rate
- Feedback was collected in the following six categories:
  - Motivation
  - Communication
  - Customer Service
  - Teamwork and Empowerment
  - Performance Rewards and Training
  - Leadership

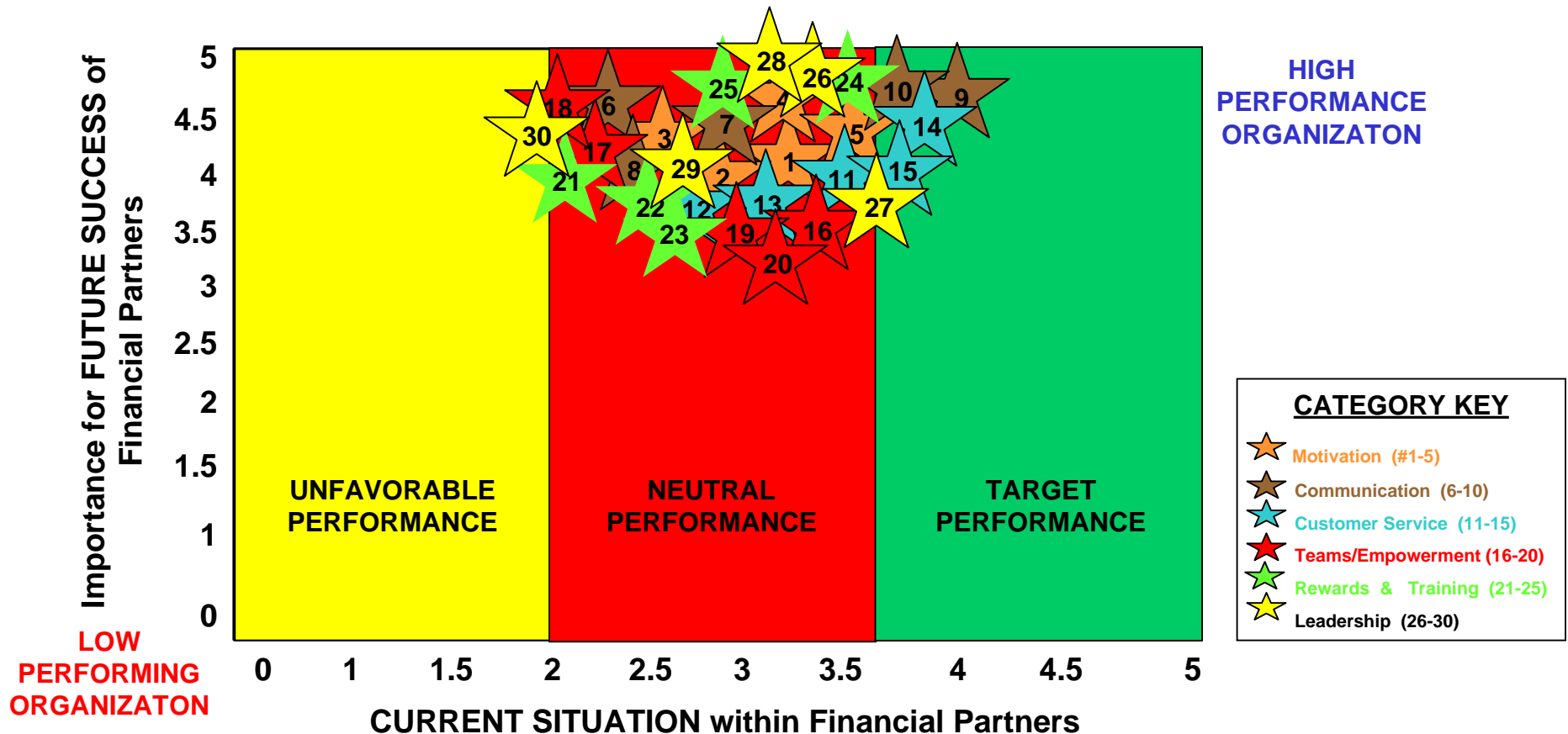




# Organization and Human Performance

## Employee Development Plan - Organizational Assessment

As indicated by the histogram, employees feel that all six elements measured by the assessment are critical to the success of the future organization. It also indicates that the transformation efforts have begun to fill the gap from the current situation to the desired future state.





# Organization and Human Performance

## Employee Development Plan - Change Agent Network

**Change Agents serve an important role in the change process. They relay communication messages and champion the transformation.**

- Change Agent Selection Process
  - The FP Leadership Team was selected to communicate the transformation and advocate change.
  - In the implementation phase, volunteers will be selected to serve this role based on their ability to demonstrate leadership skills, involvement on modernization projects, and support of the change process.
- Current Change Agents
  - Anna Allen
  - Ann Marie Cimino
  - Mirek Halaska
  - Cameron Ishaq
  - Frank Ramos
  - Jack Reynolds
  - Roberta Russo
  - Linda Stoddard
  - Katrina Turner
- Change Agent Program Next Steps
  - Share findings of the Organizational Assessment with all FP employees.
  - Develop and administer a communication tool to announce new project initiatives to select team members.
  - Provide awareness around communications, both internal and external to partners.
  - Engage employees and union to create a sense of “buy-in” to changes through the transformation process.





# Organization and Human Performance

## Employee Development Plan - Communication Strategy

**To become a successful PBO, a communication strategy is necessary to keep employees and stakeholders apprised of the changes that are occurring, keep them involved in the process of change, and help them become contributing members of the organization's continuous improvement process.**

- **Objective**
  - The FP transformation communication effort seeks to ensure all employees are informed about the changes, how their current roles and responsibilities will be affected, and how to better service their customers.
- **Audiences**
  - Audiences should be defined carefully and communication vehicles customized to their preferences so that each audience receives concise information in an easily accessible format.
  - Internal Audiences include communications only within the FP Channel, e.g. FP employees, project teams, etc.
  - External Audiences include all of SFA and FP partners, e.g. Union, GA's, Lenders, etc.
- **Benefits**
  - Through routine communications, employees will feel informed and engaged in the change process. Benefits will include "buy-in" on the changes, and increased motivation and productivity levels.
- **Stakeholder**
  - Stakeholders include external customers with a vested interest, e.g. GA's, Lenders, State Agencies.
- **Vehicle of Communication**
  - Vehicles used include: Off-Site meetings, Working Sessions, E-mails, Staff Meetings, Workshops, etc..



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## Conceptual Design

**The goal of the Risk Model is to identify any areas in Financial Partner performance that will require additional reviews or research outside of a regularly scheduled review process to ensure continued success for both the Financial Partners (Guaranty Agencies, Lenders and Servicers) and SFA.**

- Each of the identified Performance Indicators is assigned a value of importance in determining performance; 1 being “Low” as a stand-alone determining factor and 5 being “High” as a stand-alone determining factor.
  - The higher the value, the higher the concern regarding financial risk to SFA, i.e., a ‘red flag’ or “trigger “ for review.
  - The lower value indicators are of less concern, unless there is an indicator that cannot be explained from a logical business justification (e.g., delinquency rates increase due to a large purchase from a lender who is not performing well in that area), i.e., a yellow flag or need for further investigation.
  - If a FP under review receives at least one trigger during the risk model scoring, that organization will receive a review.
- A “Score Card” ultimately will be generated using these Performance Indicators to estimate SFA’s financial risk for each of the Financial Partners. This will help to focus reviews on potential problem areas and, ultimately ensure improved FP performance.



## Business Processes and Functions - Risk Model

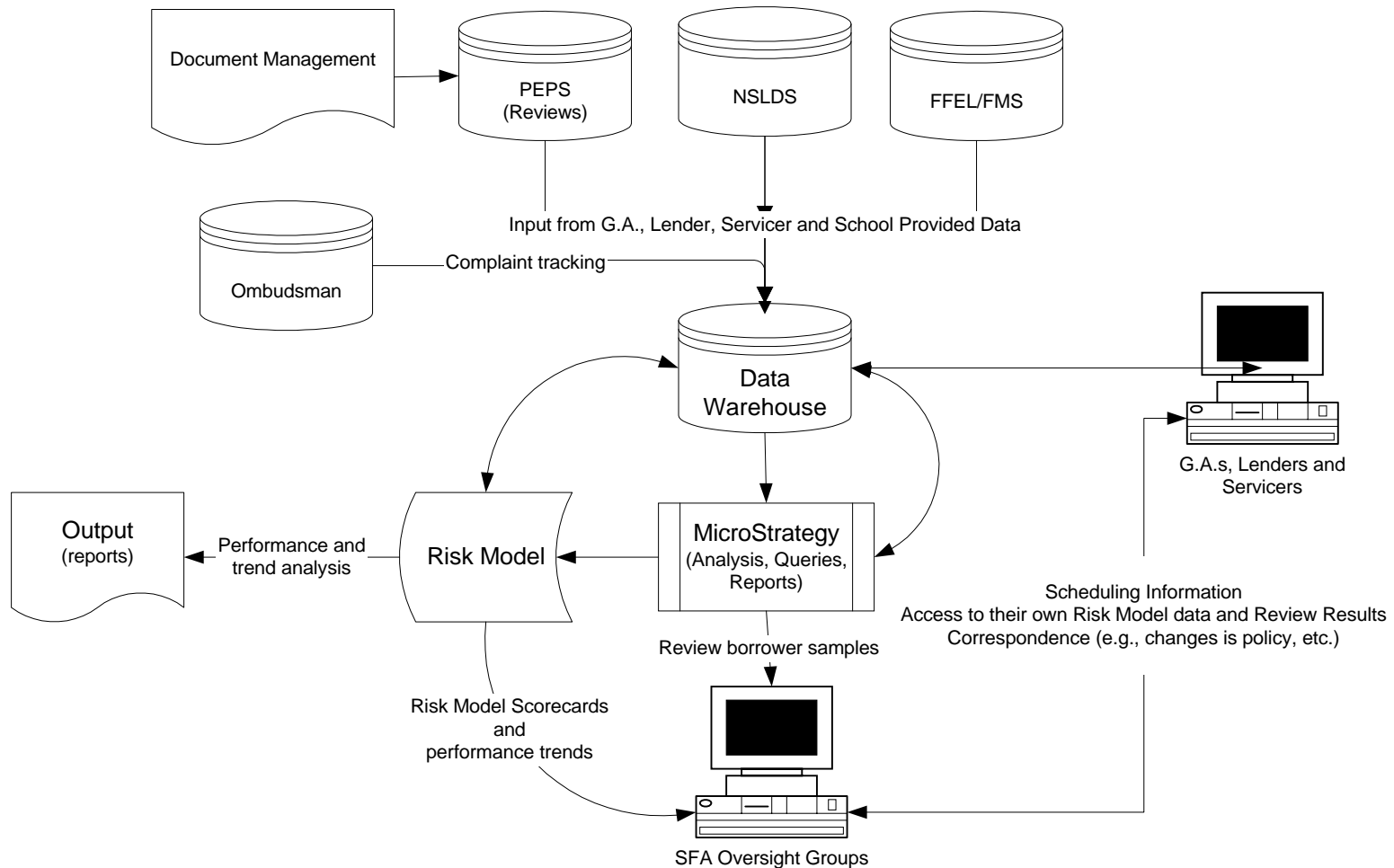
The performance indicators defined for the Risk Model are categorized by type of organization.

Value	Performance Indicators	Guaranty Agency	Lenders	Servicers
5	Change in Federal Funds	X		
5	Federal Fund vs. Reserve Fund	X		
5	Lost Guaranty/Uninsured Loans		X	
4	Rate of Reinsurance	X		
4	Change in Operating Funds	X		
4	Changes in Organizational Structure	X	X	X
3	Change in Restricted Funds	X		
3	Origination/Lender Fees		X	
3	Federal Interest Benefits		X	
3	Special Allowance Payments		X	
3	Capitalized Interest		X	X
3	Purchases		X	
3	Sales		X	
3	Portfolio Characteristics	X	X	X
3	Change in Default Rate	X	X	X
3	Delinquency Rate		X	X
3	Number of Complaints	X	X	X
2	Loan Status	X	X	
2	Change in Servicer	X	X	
2	Problems submitting ED799		X	
2	Trend analysis of Rejected Claims	X		
2	Claims Payment – History	X	X	
2	Claims Payment - Age	X	X	
2	Program Review/Audit Finding	X	X	X
2	EDP Review Findings	X	X	X
1	Change in Error Rates	X	X	X



## Technical Requirements - continued

**Deployment of the risk modeling and review reengineering will be aligned with the implementation of current SFA systems efforts.**





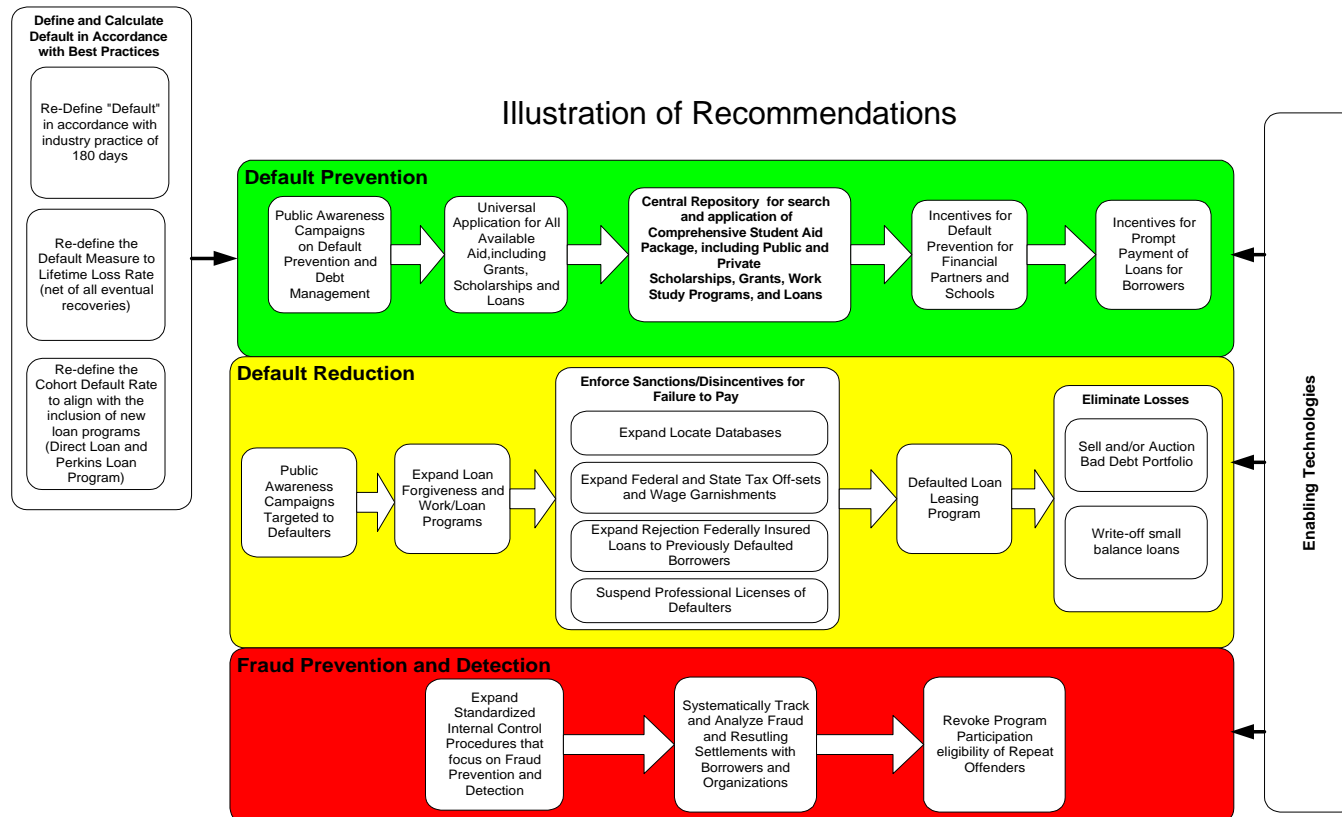
## Business Processes and Functions - Default Reduction

**During this project, the team analyzed the following areas to develop recommendations in default management.**

- Financial industry risk management, borrower behavior and default rates, particularly in the area of unsecured personal loans.
- Current technologies used in the financial services industry to analyze delinquent and defaulted borrower characteristics.
- Debt Collection Services (DCS), including default prevention and reduction pilot programs.
- Default prevention programs currently implemented by the financial partners, including Great Lakes, USA Group, Sallie Mae, and Nellie Mae.
- Calculation, tracking and analysis of delinquency and default rates.
- Related Federal and State Agency default reduction efforts.
- Current and proposed regulations regarding default prevention and reduction.

# Business Processes and Functions - Default Reduction

Based on our findings, we recognize the need to coordinate a comprehensive Default Management program across all phases of the loan life cycle (with a focus on prevention) in order to minimize financial exposure to SFA and taxpayers.





## Business Processes and Functions - Business Case

Another key effort during the Analysis and Design phase involved the process reengineering business case which yielded 4 recommendations.

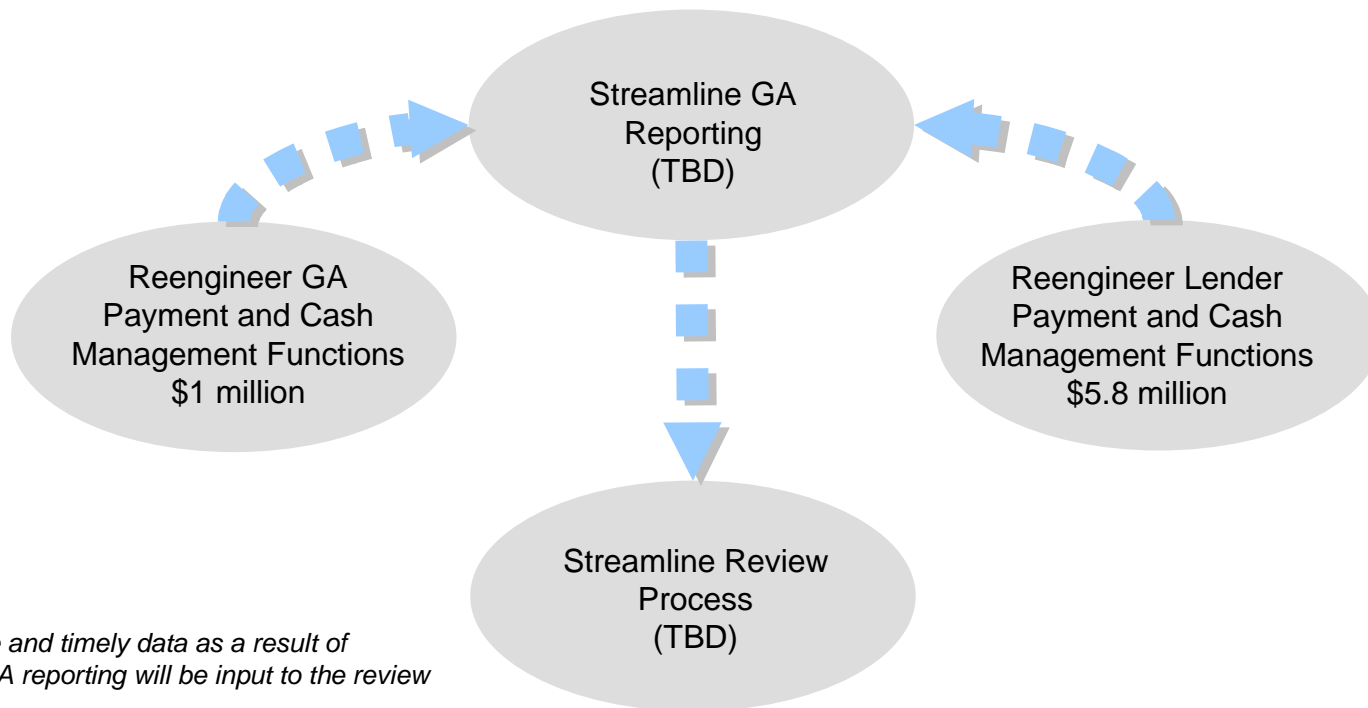
- **Streamline GA Reporting** - streamline the GA reporting process to improve data accuracy and timeliness while reducing inaccurate payments. Two proof of concepts are outlined - one stream of data and automated verification checkpoint.
- **Reengineer Guaranty Agency Payment and Cash Management Functions** - continue to support integrating GA payment and cash management functionality with the existing FMS Phase II effort. Continue reengineering by enhancing the GA payment process. Review FFEL system modification.
- **Reengineer Lender Payment and Cash Management Functions** - continue to support integrating Lender payment and cash management functionality with the existing FMS Phase III effort. Review FFEL system modification.
- **Streamline Review Process** - streamline the review process to efficiently monitor compliance and performance by reducing duplicate efforts, closing gaps, and using automated tools to track performance and review results.





## Business Processes and Functions - Business Case

**Based on the findings of the business case, the FP Channel has significant opportunities to reduce costs in four key areas.**



*More accurate and timely data as a result of streamlined GA reporting will be input to the review process*



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## Enabling Technology - Overview

**Technology is a key enabler in improving the business processes and functions of the FP Channel. Initiatives conducted during the Analysis & Design phase include:**

- **Data Mart**
  - The team conducted analysis of the business requirements and developed a high level design of the FP Channel data mart. As a result of the analysis, the team determined that the Risk Modeling initiative and the Default Management initiative will benefit from a data mart. The FP Channel should continue the momentum achieved by the data mart team by appointing a data mart owner who will work closely with the Risk Modeling team.
- **Document Management**
  - As a result of analysis of each document used within the FP Channel, the team determined that an imaging and document management system would reduce the amount of redundancy of paper and make the documents readily available. The imaging system would only be needed to get current paper-based documents for which there was no existing electronic version, into an electronic format. The document management system will also provide an orderly approach for keeping GA and Lender performance reviews and audit files. During the next phase, the team can begin developing procedures in support of a document management system.
- **Common Third Party Interfacing (Middleware)**
  - The team identified the FP Channel interfaces that occur between FP Channel systems and non-FP Channel systems. Most of the FP Channel interfaces relate to the FFEL system and as the functionality is migrated to other systems, the FFEL interfaces will change. Other interfaces may no longer be required as a result of the FP Channel data mart.



## Enabling Technology - Data Mart

**The Data Mart project team reviewed requirements from the following areas to determine which areas may benefit from a data mart.**

- Financial Management is responsible for ensuring that lenders' and guaranty agencies' payments are timely and accurate.
- Partner Services is responsible for identifying and analyzing major issues affecting lender and guarantor financial stability, and for the implementation of program and financial reviews of guaranty agencies and lenders on the proper administration and management of the Title IV programs.
- State Agency Liaison is responsible for providing support and communications to state agencies to ensure a network of effective and satisfied state agency partners.
- Program Development is responsible for maintaining a network of effective and satisfied lenders and guaranty agencies.
- Partner Systems Liaison is responsible for providing contract management-related activities to support the ongoing maintenance and operations of the Federal Family Education Loan System (FFEL), and performing the following functions related to the Financial Partners Channel.
  - Work with vendors to lower the costs associated with FFEL processing
  - Keep informed of emerging technologies and business process innovations and analyze their potential for streamlining Financial Partners operations
  - Continually evaluate business processes for service improvement and cost reduction opportunities



## Enabling Technology - Document Management

**The Document Management project team assessed the current environment and identified document management requirements from each of the FP business areas.**

- In initiating this project, the FP Channel desired to address some challenges existing in the current environment:
  - Locating all appropriate documentation in a document intensive environment when researching an issue or question
  - Searching a large paper based document for relevant information
  - Accessing electronic documents residing in numerous locations and on various media
  - Accessing documents in a timely manner
- This project addressed the requirements from the following areas:
  - Financial Management
  - Partner Services
  - State Agency Liaison
  - Program Development
  - Partner Systems Liaison



## Enabling Technology - Middleware

**The Middleware project explored the need and the implementation feasibility for a common platform that will provide standard interface for all third party affiliates of the Financial Partners Channel.**

- There are two components to this project:
  - interfaces with the external third parties (e.g.: GAs, Lenders, Servicers, etc.)
  - interfaces to and from SFA's internal computer systems that support the FP Channel's business functions (e.g. between FFEL, PEPS, NSLDS, etc...).
- The Common Third Party Interface (Middleware) team focused on the interfaces with the external partners.
- In order to effectively support this concept of Middleware to the external partners, the relationships between the FP Channel's internal computer systems needed to be examined first.



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## Summary Next Steps

**As we move into the next phase of the Financial Partners Transformation effort, completing several next steps will be critical:**

- Review findings of the Analysis and Design phase with key FP employees.
  - Business Case Recommendations
  - Risk Model Conceptual Design
  - Technical Requirements
  - Organizational Assessment Program Recommendations
  - Default Management Recommendations
- Determine recommendations which offer best opportunities for Financial Partners to implement during the next phase of the Financial Partners Transformation.
- Plan and organize teams to focus on specific recommendations.
- Communicate to Financial Partners employees the FP Transformation plans going forward via conference call, e-mail, etc.
- Finalize human and capital resources that are needed to implement recommendations.